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Impact of US Grain Sanctions Against the USSR and PolandBackground

Moscow and Warsaw are relying heavily on imports of Western grain to cover domestic production shortfalls. The Soviet Union experienced an unprecedented third consecutive harvest failure in 1981. Although no official announcement has yet been made, the grain crop is expected to be only about 170 million tons--65 million tons below plan. We estimate the Soviets will import grain at a rate of 45 million tons a year--the maximum amount their ports can handle--for the foreseeable future. They have already purchased or have commitments for 30-31 million tons of grain from all suppliers in the LTA year 1 October 1981 through 30 September 1982. The United States has authorized the sale of 23 million tons. So far this LTA year the USSR has lifted more than 11 million tons, including 4.6 million tons of the 10.9 million contracted to date from the United States. Currently Moscow has arranged to ship roughly 2 million tons a month from US ports during January-March.

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Poland's grain harvest last fall rebounded after two disastrous years, reaching an estimated 20.5 million tons. Large increases in domestic production of potatoes and sugar beets--important sources of livestock feed--further reduced the need for imported feed grains. Poland thus is expected to cut back grain imports by roughly 20 percent from last year's record level to about 6 million tons. Warsaw was counting on the US to supply roughly half its imports. The US suspension of export credits

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after the imposition of martial law would effectively deny Poland 1.6 million tons of US grain it had requested.

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Impact on the USSR

A US embargo on future grain sales to the USSR might deny the Soviet Union 12 million tons of the 23 million tons authorized for purchase this LTA year. If the United States also refuses to ship the 6.3 million tons already under contract but not shipped as of 7 January, the USSR would face an initial grain import shortfall of more than 18 million tons.

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In either case, a portion of the denied US supplies would undoubtedly be made up from non-US suppliers. With expectations of a possible record world grain harvest this year, other major exporters would be anxious to increase sales to the USSR. Indeed, because of the current US-USSR political climate, non-US exporters have been actively pushing to conclude new sales contracts. Some of this activity probably is replacing part of the 23 million tons of US grain the USSR was authorized to purchase. Judging by Soviet success following the imposition of the Afghan grain sanctions, we believe the Soviets would reasonably expect to replace at least two-thirds of the 18 million tons they would otherwise have had access to.

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A denial of 6 million tons of imported grain would have its principal effect on domestic meat consumption. Every million tons of imported grain, if allocated to meat production, would be converted into 80,000 tons of meat. Thus a denial of 6 million tons at most could reduce meat output by roughly 500,000 tons, or

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by about 3 percent. Some of this reduction would be offset by imports of meat above current intentions.

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Impact on the USSR and Poland

An extension of a US grain embargo to include Poland as well as the USSR would further complicate matters for the Soviet Union. Fairly quickly the Soviet leadership would have to decide what priority to attach to Polish needs. While the Polish grain requirement from the United States is relatively small--only 1.6 million tons--Warsaw's options are limited. A decision to help Warsaw would entail (1) supplying Poland from its own limited granery, (2) calling on its East European partners to fill the void from their limited stocks, or (3) buying replacement grain in the West for hard currency (at the cost of about \$200 million) at a time when its foreign exchange position is deteriorating.

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In response to
your question about
impact of grain
cut-off. Direct
answer on p. 2-3.

Bob.